

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	36.75	(0.75)	0.00	36.00	(0.75)	6.00	42.00	42.00
Personal Services	2,618,625	(572,292)	0	2,046,333	(572,143)	312,552	2,359,034	4,405,367
Operating Expenses	852,235	11,439	0	863,674	12,242	5,000,000	5,864,477	6,728,151
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	0	0	0	0	0	14,787,448	14,787,448	14,787,448
Transfers	0	0	0	0	0	0	0	0
Debt Service	8,282	0	0	8,282	0	0	8,282	16,564
<b>Total Costs</b>	<b>\$3,479,142</b>	<b>(\$560,853)</b>	<b>\$0</b>	<b>\$2,918,289</b>	<b>(\$559,901)</b>	<b>\$20,100,000</b>	<b>\$23,019,241</b>	<b>\$25,937,530</b>
General Fund	1,438,349	(247,056)	0	1,191,293	(244,066)	0	1,194,283	2,385,576
State/Other Special	290,435	(42,344)	0	248,091	(42,085)	100,000	348,350	596,441
Federal Special	1,750,358	(271,453)	0	1,478,905	(273,750)	20,000,000	21,476,608	22,955,513
<b>Total Funds</b>	<b>\$3,479,142</b>	<b>(\$560,853)</b>	<b>\$0</b>	<b>\$2,918,289</b>	<b>(\$559,901)</b>	<b>\$20,100,000</b>	<b>\$23,019,241</b>	<b>\$25,937,530</b>

**Program Description**

The Director's Office provides overall policy development and administrative guidance for the department. Included in the Director's Office are the deputy director, state Medicaid director, legal affairs, personnel services, public information, the Prevention Resource Center, the AmeriCorps\*VISTA Program, and the Office of Planning, Coordination, and Analysis. The Department of Public Health and Human Services Statewide Advisory Council, the Native American Advisory Council, and the Montana Health Coalition are administratively attached and the director serves on the Interagency Coordinating Council for State Prevention Programs, which is attached to the Governor's Office.

Statutory authority is in Title 2, Chapter 15, part 22 and Title 53, Chapter 19, part 3, MCA.

**Program Highlights**

Director's Office Major Budget Highlights	
<ul style="list-style-type: none"> <li>The FY 2007 Director's Office budget request increases \$20 million in federal funds, including funding for 6.00 new FTE, compared to the FY 2004 base budget due to two Medicaid redesign recommendations (HIFA waiver and waiver of deeming – discussed in detail in the DPHHS overview)</li> <li>General fund costs in the 2007 biennium budget request are lower than base budget costs because one time department wide termination payouts were removed from the base budget</li> </ul>	

Major LFD Issues
<ul style="list-style-type: none"><li>• The legislature could continue program funding at FY 2004 base budget funding splits, reducing the 2007 biennium general fund request by \$25,400</li><li>• The legislature could continue the philosophy that the original “refinancing” unit must earn its general fund match, and reduce the 2007 biennium general fund request up to \$189,000</li></ul>

### Budget Discussion

The Director’s Office budget request declines from base budget expenditures to FY 2006 and then increases dramatically in FY 2007. The reduction between the FY 2004 base budget and the FY 2006 request is due to removal of department wide termination payouts of about \$835,000. Agencies must pay accumulated annual leave and overtime leave as well as a portion of unused sick leave when employees retire or leave state employment or when their positions are eliminated due to a reduction in force or reorganization.

Termination payouts are recorded in the personnel program budget in the Director’s Office and then removed from the base budget as a one-time expense. Since termination payouts are funded from a combination of general fund, state special revenue and federal funds, removal of termination costs accounts for a reduction of about \$354,000 general fund and \$61,000 state special revenue from the base budget compared to the annual requests for the 2007 biennium. Funds are transferred from other divisions in DPHHS to pay termination costs. Other operating and personal services cost increases offset part of the \$354,000 reduction in general fund due to removal of termination costs.

The most significant change in the Director’s Office budget request is for \$20 million in federal authority in FY 2007 to pursue two of the Medicaid redesign recommendations made by the Governor’s Health Care Advisory Council. The Medicaid redesign recommendations, including legislative policy options, are discussed in the agency overview because more than one division is affected and because of the major policy issues associated with the recommendations. The requests are attached to the Director’s Office, but directly affect programs and expenditures in three other divisions – Health Resources, Operations and Technology, and Addictive and Mental Disorders divisions. If the requests are approved and implemented, program administration and related expenditures, including funding for 6.00 new FTE, will be distributed from the Director’s Office budget among affected programs.

### Biennial Comparison

Figure 28 shows the 2005 biennium expenditure and appropriations (about \$6 million) compared to the budget request for the 2007 biennium (\$26 million). While the total funds requested increase, total general fund support declines slightly. The 2007 biennium grows \$20 million because of the two requests for federal funds to implement Medicaid redesign recommendations. General fund support for the 2005 biennium is slightly lower than the 2007 biennium due to removal of one-time termination payouts in the base budget.

Figure 28 2005 Biennium Compared to 2007 Biennium Director's Office					
Budget Item/Fund	2005 Biennium	2007 Biennium	Percent of Total	Change	Percent Incr/Decr
FTE	42.00	42.00		0.00	0%
Personal Services	\$4,382,026	\$4,405,367	17%	\$23,341	1%
Operating	1,493,216	6,728,151	26%	5,234,935	351%
Equipment	0	0	0%	0	0%
Benefits/Claims	0	14,787,448	57%	14,787,448	n/a
Debt Service	20,478	16,564	0%	(3,914)	-19%
Total Costs	<u>\$5,895,720</u>	<u>\$25,937,530</u>	<u>100%</u>	<u>\$20,041,810</u>	<u>340%</u>
General Fund	\$2,422,636	\$2,385,576	9%	(\$37,060)	-2%
State Special	495,745	596,441	2%	100,696	20%
Federal Funds	<u>2,977,339</u>	<u>22,955,513</u>	<u>89%</u>	<u>19,978,174</u>	<u>671%</u>
Total Funds	<u>\$5,895,720</u>	<u>\$25,937,530</u>	<u>100%</u>	<u>\$20,041,810</u>	<u>340%</u>

### Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor.

Program Funding Table Director's Office						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	\$ 1,438,349	41.3%	\$ 1,191,293	40.8%	\$ 1,194,283	5.2%
02099 69010-Vista-Community Cost Shr	70,311	2.0%	75,017	2.6%	75,133	0.3%
02377 02 Indirect Activity Prog 04	220,124	6.3%	173,074	5.9%	173,217	0.8%
02774 Waiver Of Deeming	-	-	-	-	100,000	0.4%
03072 69010-Cns-Grants-Vista	229,717	6.6%	249,786	8.6%	250,176	1.1%
03580 6901-93.778 - Med Adm 50%	-	-	-	-	5,312,552	23.1%
03583 93.778 - Med Ben Fmap	-	-	-	-	14,687,448	63.8%
03594 03 Indirect Activity Prog 04	<u>1,520,641</u>	<u>43.7%</u>	<u>1,229,119</u>	<u>42.1%</u>	<u>1,226,432</u>	<u>5.3%</u>
Grand Total	<u>\$ 3,479,142</u>	<u>100.0%</u>	<u>\$ 2,918,289</u>	<u>100.0%</u>	<u>\$ 23,019,241</u>	<u>100.0%</u>

The Director's Office is funded by a combination of general fund, state special revenue, and federal special revenue. The majority of the functions are cost allocated, with funding based on the task that is being performed. In the base budget, the largest source of funding is federal cost allocation reimbursements (44 percent of the total). In FY 2007, the federal share grows significantly to 94 percent of total funding due to the proposed Medicaid redesign recommendations included in the Director's Office budget request. If the legislature approves the redesign waiver requests, \$20 million in federal appropriation authority and funding for 6.00 new FTE will be distributed among other divisions and the funding in the Director's Office during the 2007 biennium will more closely resemble that in the base budget year.

State special revenue supporting the Director's Office is from two sources - cost allocation, which is the most significant, and community cost share for VISTA volunteers. The Office of Prevention Resources administers the VISTA program, which is also supported by a federal grant.

General fund supports 41 percent of the Director's Office base budget. The total general fund requested in FY 2007 is less than base budget funding, falling from \$1.4 million to \$1.2 million, due to removal of termination payouts in the base budget.

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Potential General Fund Reductions - The legislature may wish to consider the general fund allocated to several of the subprograms in the Director's Office compared to base year funding and, in the instance of the Office of Planning, Coordination and Analysis, the original expectations of how the function would be funded. This issue has two parts:

- Base year funding compared to request
- General fund support for Office of Planning, Coordination and Analysis

#### Part 1 - Base Year General Fund Compared to 2007 Biennium Request

Many administrative functions in DPHHS, including those in the Director's Office, are cost allocated among several different funding sources. The most easily understood method of allocating shared administrative cost is based on the amount of time staff spends on each function. (There are also other methods accepted by the federal government that involve assignment of costs among funding sources.) For instance, staff time spent on Medicaid program administration is funded 50 percent from the general fund and 50 percent from the federal funds. Time spent administering a federal grant function is funded from that federal grant.

The general fund requested in three function budgets of the Director's Office is greater than the percent of general fund supporting base budget expenditures. Figure 29 shows individual subprograms and the difference in general fund if the 2007 biennium budget request is funded at the same funding splits as the base budget costs. Without evidence to show that administrative duties will substantially change from the base budget year, the legislature could chose to continue base budget funding percentages and reduce general fund costs by about \$25,400 over the 2007 biennium.

The legislature could request that the most recent cost allocation funding mix be presented for legislative consideration or it could base the 2007 biennium budget request on the base budget funding mix.

#### Part 2 - Office of Planning, Coordination and Analysis (OPCA)

The legislature approved the creation of a refinancing unit for DPHHS in the August 2002 Special Session by appropriating \$5 million in federal funds to support 5.00 new FTE and other costs. The legislature expected that any general fund costs for the unit would be supported by projects that identified general fund savings from "refinancing" programs or functions with federal funds. The 2003 Legislature appropriated an additional \$5 million in federal funds annually, including funding for the 5.00 FTE, to continue the refinance unit during the 2005 biennium.

DPHHS reorganized the unit and expanded its functions to include assisting the department with planning and coordination across divisions and developing data sources and reporting statistics and trends in a form usable to top management at both the division and department level. This action was taken within the constitutional prerogative of the executive to manage state government. However, this action was not anticipated nor considered by the legislature in formulating the 2005 biennium appropriation. Base budget general fund supporting OPCA is \$162,105. The 2007 biennium executive budget requests a general fund increase of \$191,000 to support the unit.

Figure 29  
Director's Office General Fund  
Request Compared to Base Funding

Part 1 and 2 of Funding Issue Subprogram	GF Request Over (Under) Base Funding
<u>Part 1 of Funding Issue</u>	
Director's Office	\$11,562
Legal Unit	11,869
Office of Program Finance	1,937
Prevention Resource Center	(7)
Total for Part 1	<u>\$25,361</u>
<u>Part 2 of Funding Issue</u>	
Office of Program Finance	
Base Year General Fund	
Times 2	\$324,390
FY 2006 Request	257,954
FY 2007 Request	<u>257,409</u>
General Fund Request	
Over (Under) Base Funding	<u>\$190,973</u>

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Legislative staff requested documentation on the refinancing projects pursued during FY 2004 and FY 2005 in order to determine the level of ongoing general fund savings generated by OPCA. Depending on the documentation provided, the legislature may wish to evaluate the level of general fund support for this function. If the refinancing projects have not generated the level of general fund savings to support the 2007 biennium request, the legislature could chose to continue the same philosophy for this office, requiring the office to pay its own way by identifying general fund cost savings throughout DPHHS. The legislature could reduce the 2007 biennium executive budget request by up to \$191,000 general fund, or about \$2,000 less if the legislature also accepted part 1 of this issue. That action would leave base budget general fund of \$162,195 for the office and would require the office to either:

- Generate needed general fund through refinancing efforts as originally envisioned by the legislature; or
- Transfer general fund from other programs or incur additional vacancy savings

**Present Law Adjustments**

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2006					Fiscal 2007					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(445,490)					(445,211)
Vacancy Savings					(86,925)					(86,935)
Inflation/Deflation					(600)					(579)
Fixed Costs					12,039					12,821
<b>Total Statewide Present Law Adjustments</b>					<b>(\$520,976)</b>					<b>(\$519,904)</b>
DP 9999 - Statewide FTE Reduction	(0.75)	(19,532)	(215)	(20,130)	(39,877)	(0.75)	(19,591)	(216)	(20,190)	(39,997)
<b>Total Other Present Law Adjustments</b>	<b>(0.75)</b>	<b>(\$19,532)</b>	<b>(\$215)</b>	<b>(\$20,130)</b>	<b>(\$39,877)</b>	<b>(0.75)</b>	<b>(\$19,591)</b>	<b>(\$216)</b>	<b>(\$20,190)</b>	<b>(\$39,997)</b>
<b>Grand Total All Present Law Adjustments</b>					<b>(\$560,853)</b>					<b>(\$559,901)</b>

As noted earlier, termination payouts for all of DPHHS are recorded in the personnel unit of the Director's Office and divisions with terminations transfer funds to cover the payouts. FY 2004 base budget termination payouts of about \$834,000 were removed, causing the statewide present law adjustments to net to a negative \$0.5 million annually. About 41 percent of those costs would be funded from the general fund.

DP 9999 - Statewide FTE Reduction - This decision package reduces personal services general fund equal to the across-the-board personal services reduction that was made for the 2005 biennium by the 2003 Legislature. The funding reduction is equivalent to 0.75 FTE.

**New Proposals**

New Proposals										
Fiscal 2006					Fiscal 2007					
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 188 - HIFA Waiver - Medicaid Redesign (Requires Legislation)										
04	0.00	0	0	0	0	6.00	0	0	20,000,000	20,000,000
DP 189 - Waiver of Deeming (Requires Legislation)										
04	0.00	0	0	0	0	0.00	0	100,000	0	100,000
<b>Total</b>	<b>0.00</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>6.00</b>	<b>\$0</b>	<b>\$100,000</b>	<b>\$20,000,000</b>	<b>\$20,100,000</b>

DP 188 - HIFA Waiver - Medicaid Redesign (Requires Legislation) - This proposal requests \$20 million in federal authority for a Health Insurance Flexibility and Accountability (HIFA) waiver. DPHHS is submitting legislation to authorize the waiver. The basic premise of the waiver is to refinance the Mental Health Services Plan (MHSP), currently funded almost entirely from state funds. In some years, a portion of the federal mental health block grant has paid MHSP costs. The HIFA waiver is discussed in more detail, including identification of legislative policy options, in the DPHHS overview.

DP 189 - Waiver of Deeming (Requires Legislation) - This proposal requests \$100,000 of state special revenue for the Waiver of Deeming proposal. This type of waiver allows DPHHS to exclude parental income and assets in determination of a child's eligibility for Medicaid. DPHHS already administers two such waivers for physically disabled and developmentally disabled children. This request would create a third waiver for children with a serious emotional disturbance or mental illness to become Medicaid eligible without consideration of parental income. These waivers also provide services that are not a normal part of the Medicaid program. These funds would be used to support the required state match for an enhanced Home and Community Based Services (HCBS) Waiver that is also part of the Medicaid redesign proposal, which is discussed in detail in the DPHHS overview.